

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 IO-13 ISO-00

SP-02 USIA-06 AID-05 NSC-05 TRSE-00 SS-15 STR-05

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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 INT-05 GSA-02 /137 W

-----124900 221407Z /53

R 221230Z DEC 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1532

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY BANGKOK

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FOR: EB/ICD/ISM - WALTER LENAHAH

E.O. 11652: N/A

TAGS: ETRD, EMIN, ITC

SUBJECT: TIN -- SECOND MEETING OF THE ITC ECONOMIC AND
PRICE REVIEW PANEL

L. SUMMARY: DESPITE EXTENSIVE AND HEATED DEBATE
EXTENDING OVER A TEN DAY PERIOD, THE ITC'S ECONOMIC AND
PRICE REVIEW PANEL (EPRP) WAS UNABLE TO AGREE ON WHAT
ACTION TO RECOMMEND TO THE COUNCIL CONCERNING THE ITC
PRICE RANGE. BECAUSE OF THIS SPLIT, PRODUCERS OPTED FOR
A RECOMMENDATION THAT THE PRICE RANGE BE INCREASED
SUBSTANTIALLY TO (M\$(MALAYSIAN RINGITTS) L400-L700 PER
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PIKUL) WHILE CONSUMERS ARGUED THAT, IN LIGHT OF THE
DIFFERENCE IN VIEWS, THE PANEL SHOULD CONFINE ITSELF
TO ANALYSIS, LEAVING IT TO THE COUNCIL IN JANUARY TO
MAKE ITS OWN DECISIONS ON THE PRICE RANGE. A LARGE
PART OF THE DISCUSSION FOCUSED ON PRODUCTION DISINCEN-
TIVES CAUSED BY AD VALOREM EXPORT TAXES AND ROYALTIES
WHICH CONSUMERS POINTED TO AS DISINCENTIVES TO INCREASED

TIN OUTPUT IN A TIME OF SHORTAGE. END SUMMARY.

2. THE ITC ECONOMIC AND PRICE REVIEW PANEL (EPRP) FORMED IN EARLY 1977 IN RESPONSE TO BOLIVIAN CLAIMS THAT THE COUNCIL WAS NOT PAYING ADEQUATE ATTENTION TO THE NEEDS OF THE COUNCIL'S TIN PRODUCERS, MET FOR THE SECOND TIME DECEMBER 12-20 TO REVIEW THE CURRENT SITUATION IN THE TIN MARKET AND TO ATTEMPT TO REACH "FINDINGS AND CONCLUSIONS" ON THE APPROPRIATENESS OF THE ITC FLOOR AND CEILING PRICES (CURRENTLY M\$1200-M\$1500 PER PIKUL). THE EPRP CONSIDERED REPORTS BY THE COUNCIL'S COST AND PRICES AND DEVELOPMENT COMMITTEES, THE BUFFER STOCK MANAGER'S REPORT OF THE CURRENT MARKET SITUATION AND SUBMISSIONS BY INDIVIDUAL CONSUMING AND PRODUCING COUNTRIES, INCLUDING SUBMISSIONS BY SOME PRODUCING COUNTRIES ON THE MARKET PRICE REQUIRED TO BRING ON NEW TIN PRODUCTION.

3. PRODUCERS ARGUED THAT THE STATISTICAL AND ECONOMIC DATA SUBMITTED TO THE PANEL SUPPORTED THEIR THESIS THAT THE ITC FLOOR PRICE SHOULD BE SUBSTANTIALLY INCREASED. THEY NOTED THAT ACCORDING TO PRODUCERS' COST DATA, THE WEIGHTED AVERAGE COST OF PRODUCTION, INCLUDING TAXES, WAS M\$1,180 PER PIKUL DURING THE FIRST HALF OF 1977 AND POINTED OUT THAT USING A WEIGHTED AVERAGE COST, 46 PERCENT OF ITC PRODUCTION EXCEEDED THE ITC FLOOR PRICE OF M\$1,200. THEY ATTEMPTED TO USE THEIR HYPOTHETICAL IN-LIMITED OFFICIAL USE

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VESTMENT MODELS, WHICH COVERED EXPECTED REVENUES, TAXES, PROFITS, COSTS, INTERNAL RATES OF RETURN, AND DEPRECIATION RATES, TO PROVE THAT NEW INVESTMENTS WOULD BE FORTHCOMING ONLY AT A MARKET PRICE OF M\$1,600 PER PIKUL; THEY ATTEMPTED TO USE THIS MATERIAL TO CONVINCE CONSUMERS THAT THE ITC FLOOR PRICE MUST BE SUBSTANTIALLY INCREASED TO PROVIDE AN INVESTMENT GUARANTEE IF NEW INVESTMENT IS TO BE MADE IN THE TIN INDUSTRY. THE MODELS IN THEMSELVES PROVIDED A DATA BASE FOR EPRP DISCUSSION.

4. CONSUMERS COUNTERED THE PRODUCER ARGUMENT BY NOTING THAT, USING CAP DATA, BASED ON ACTUAL PRODUCER COSTS, TWO-THIRDS OF ALL ITC TIN IS PRODUCED AT COSTS LESS THAN THE M\$1,200 CURRENT FLOOR AND THAT, IF PRODUCER AD VALOREM EXPORT DUTIES AND ROYALTIES ARE EXCLUDED, 98 PERCENT OF ALL ITC TIN IS PRODUCED AT COSTS LESS THAN THE CURRENT ITC FLOOR PRICE. MAJOR CONSUMERS (US, FRG, JAPAN AND THE UK) FURTHER EXPRESSED THEIR VIEW THAT MEDIUM TERM MARKET STABILITY, NOT THE FLOOR PRICE, PROVIDES ASSURANCE TO THE INVESTOR AND THAT THE FLOOR PRICE ONLY SERVED THE PURPOSE OF A TRIGGER POINT FOR DETERMINING BUFFER STOCK ACTION. THE U.S. AND SOME OTHER CON-

SUMER DELEGATIONS ALSO POINTED OUT THE FUTILITY OF ATTEMPTING TO USE THE PRICE RANGE TO BRACKET THE CURRENT PRICE WHEN IT IS RECOGNIZED THAT THE CURRENT PRICE IS IN DISEQUILIBRIUM DUE TO THE PERSISTENT SHORTAGE OF TIN. MAJOR CONSUMERS ALSO NOTED THAT, DUE TO TAX AND OTHER IMPEDIMENTS IN SOME PRODUCING COUNTRIES, TIN PRODUCTION HAS NOT RESPONDED TO HIGH MARKET PRICES OR TO ADJUSTMENTS IN THE ITC PRICE RANGE DURING THE PAST FIVE YEARS.

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5. AFTER PROTRACTED AND OFTENTIMES HEATED DEBATE, THE ONLY THING PRODUCERS AND CONSUMERS COULD AGREE ON WAS THAT THEY COULD NOT REACH A CONSENSUS CONCLUSION TO BE FORWARDED TO THE COUNCIL FOR CONSIDERATION AT ITS JANUARY SESSION. ACCORDINGLY, IT WAS DECIDED THAT THE PANEL REPORT SHOULD REFLECT THE VARIOUS VIEWS OF ITS MEMBERS. ON THIS BASIS, THE FOUR EPRP PRODUCER MEMBERS

(BOLIVIA, THAILAND, INDONESIA AND AUSTRALIA) RECOMMENDED THAT THE COUNCIL IN JANUARY RAISE THE FLOOR PRICE FROM M\$1,200 TO M\$1,400 AND THE CEILING PRICE FROM M\$1,500 TO M\$1,700 WITH THE MAXIMUM BUFFER STOCK BUY POINT AT LIMITED OFFICIAL USE

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M\$1,500 AND THE MAXIMUM BUFFER STOCK SELL POINT AT M\$1,600. ON THE CONSUMER SIDE, THE US AND FRG (WITH SUPPORT FROM THE UK AND JAPAN, BOTH OF WHOM OBSERVED AT THE MEETING) CONCLUDED THAT MOST ITC PRODUCTION IS PROFITABLE AT THE CURRENT PRICE RANGE AND THAT THE PANEL SHOULD NOT REACH FINDINGS AND CONCLUSIONS AT THIS TIME. BELGIUM SUBMITTED A SEPARATE CONSUMER STATEMENT, THAT THE CURRENT PRICE RANGE IS INADEQUATE, BUT THAT IT SHOULD BE LEFT TO THE COUNCIL TO DECIDE WHAT TO DO. USSR, THE FOURTH CONSUMER MEMBER ON THE PANEL, DID NOT PARTICIPATE IN THE MEETING. A LENGTHY U.S. STATEMENT COVERING ALL THESE POINTS PROVIDED THE BASIS FOR THE CONSUMER POSITION.

6. COMMENT: PRODUCERS APPARENTLY CAME TO THE PANEL MEETING INTENDING TO SEEK A MUCH HIGHER INCREASE IN THE PRICE RANGE THAN THAT WHICH THEY FINALLY REQUESTED. UNANIMITY AMONG MAJOR CONSUMERS IN OPPOSITION TO A PRICE RISE LED PRODUCERS TO REASSESS THEIR OBJECTIVE AND, AFTER A FOUR DAY INTERNAL SQUABBLE AMONG THEMSELVES, OPTED FOR THE LOWER MAXIMUM PRICE GOAL OF M\$1,700. EVEN THIS LOWER OBJECTIVE (WHICH WOULD REPRESENT A 17 PERCENT INCREASE IN THE FLOOR PRICE) WAS NOT ACCEPTABLE TO MAJOR CONSUMERS. MANY (US, UK, FRG, JAPAN) INDICATED THEY ARE PREPARED TO OPPOSE ANY PRICE RANGE INCREASE IN JANUARY. SOME SMALLER CONSUMERS, TOO, WHILE INCLINED TO GO ALONG WITH SOME INCREASE TO AVOID A POLITICAL CONFRONTATION, MAY BE PREPARED TO OPPOSE THE SUBSTANTIAL INCREASE REQUESTED BY THE PRODUCERS AT THE JANUARY COUNCIL MEETING.

7. NOTES: JAPAN, THE UK AND THE FRG HAVE ADVISED THE US DELS (LENAHAN AND THIGPEN) THAT THEIR TENTATIVE LIMITED OFFICIAL USE

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POSITION IS TO OPPOSE ANY PRICE RANGE INCREASE IN JANUARY. THEY HAVE COMMITTED TO REQUEST CONSULTATIONS SHOULD THEIR POSITIONS CHANGE PRIOR TO THE JANUARY MEETING OF THE COUNCIL.

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